

Paper 15- Business Strategy & Strategic Cost Management

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Full Marks: 100

Time allowed: 3 Hours

Section - A

Answer Question No. 1 which is compulsory and Carries 20 Marks.

1. (a) What is Strategic decision? What are its characteristics? [8]

- (b) A Factory manufactured a Tape Recorder, the estimate costs of which are as follows:

Direct Material	₹ 20 each
Direct wages	10 hours at ₹ 1.00 per hour
Overhead absorption Rate	₹ 2.00 per hour.(50% fixed overhead included)

During this period 10,000 units will be produced and sold as follows:-

9,000 units of first at	₹60 each
500 units of second at	₹50 each
500 units of third at	₹30 each

Present information to management showing the loss due to the production of inferior units.

By reprocessing the inferior units, taking the full re-processing time of a further 3 hours and adding further materials, costing ₹14 per unit, these 'seconds' and 'third' can be converted into 'firsts' Present information to the management. [3]

- (c) A company has the capacity of production of 80,000 units and presently sells 20,000 units at ₹ 100 each. The demand is sensitive to selling price and it has been observed that with every reduction of ₹ 10 in selling price the demand is doubled. What should be the target cost at full capacity if profit margin on sale is taken as 25%? [3]

- (d) The data of running costs per year and resale price of equipments A whose purchase price is ₹ 2,00,000 are as follows:

Year	I	II	III	IV	V	VI	VII
Running cost(₹'000)	30	38	46	58	75	90	110
Resale value (₹'000)	100	50	25	12	8	8	8

What is the optimum period of replacement? [3]

- (e) What are the objectives of JIT production methods? [3]

Section - B

Answer any five questions from the following and each question carries 16 marks.

2. (a) "Choice of strategy is influenced by some factors" – State the factors that influence the choice of strategy.
- (b) What are the problems of strategy evaluation? [8 + 8]
3. (a) Discuss Contingency Planning and its seven steps process.
- (b) Describe about the internal and competitive bench marking. [8 + 8]
4. (a) "The various PEST Analysis factors that a firm needs to consider and research in order to enter the restaurant business" - Discuss the various factors.

(b) Distinguish between Cost Reduction and Cost Management.

[10 + 6]

5. (a) Discuss the benefits of Strategic Alliance.

[8]

(b) The data on the running costs per year and resale price of equipment A whose purchase prices is ₹ 2,00,000 are as follows :

Year	1	2	3	4	5	6	7
Running cost (₹)	30,000	38,000	46,000	58,000	72,000	90,000	1,10,000
Resale value (₹)	1,00,000	50,000	25,000	12,000	8,000	8,000	8,000

(i) What is the optimum period of replacement?

(ii) When equipment A is two years old, equipment B which is a new model for the same usage is available. The optimum period for replacement is 4 years with an average cost of ₹72,000. Should equipment A changed with equipment B? If so, when?

[8]

6. (a) What do you mean by Kaizen Costing.

[8]

(b) An automobile production line turns out about 100 cars a day, but deviations occur owing to many causes. The production is more accurately described by the probability distribution given below:

Production/Day	Prob.	Production/Day	Prob.
95	0.03	101	0.15
96	0.05	102	0.10
97	0.07	102	0.07
98	0.10	104	0.05
99	0.15	105	0.03
100	0.20		
		Total	1.00

Finished cars are transported across the bay, at the end of each day, by ferry. If the ferry has space for only 101 cars. Using the Random numbers viz. 20, 63, 46, 16, 45, 41, 44, 66, 87, 26, 78, 40, 29, 92, 21 what will be the average number of cars waiting to be shipped, and what will be the average number of empty space on the boat? [8]

7. (a) Evenkeel Ltd. manufactures and sells as single product X whose price is ₹ 40 per unit and the variable cost is ₹ 16 per unit.

(i) If the fixed costs for this year are ₹ 4,80,000 and the annual sales are at 60% margin of safety, calculate the rate of net return on sales, assuming an income tax level of 40%.

(ii) For the next year, it is proposed to add another product line Y whose selling price would be ₹ 50 per unit and the variable cost ₹ 10 per unit. The total fixed costs are estimated at ₹ 6,66,600. The sales mix of X:Y would be 7:3. At what level of sales next year, would Evenkeel Ltd. break even? Give separately for both X and Y the break even sales in rupees and quantities. [8]

(b) Shiplon Products Ltd. manufacturing 3 different products. The relevant data of these products are as under:

Name of the product :	Cream	Pomed	Jelly
Production capacity (units)	5,000	7,000	8,100
Machine hours per unit	1	3	4
Variable cost per unit (₹)	3.00	2.50	3.50
Selling prices (₹ /unit)	4.00	5.50	6.00

The total fixed overheads at current capacity level are ₹ 40,000 per annum.

The company have various alternatives for improving profitability as given below.

- (i) To stop the production of Jelly and use the released capacity for producing Pomed. The machines for both the products are common. However cream is produced on a special purpose machine.
- (ii) To export the total production of Jelly at current price. On export the following additional revenue is expected.
 - (A) 8% Duty Drawback on export price,
 - (B) 12% Cash Compensatory Support against an export scheme of government.
 - (C) 5% Replacement Licence which can be sold in market at a premium of 80%.
- (iii) To replace the conventional machine used for Jelly by a special purpose machine which will reduce the production time from 4 hour to 3 hour per unit. Due to these changes the variable cost of Jelly will be reduced by ₹ 0.50 per unit. The released machine will be used for producing pomed. This proposal will entail an additional burden of fixed cost to the tune of ₹ 32,000 per annum.

Please advise the management about the right choice of an alternative so as maximise profits. [8]

8. (a) M/s. N.C.Ltd. has received an enquiry from a reputed cigarette factory for the supply of 20 million shells per month. Capacity exists for the same but a balancing equipment costing ₹ 50,000 has to be installed.

The cost details are as follows:

Duplex board	- 50 tonnes @ ₹ 5.50 per kg.
Printing ink and gum	- ₹ 2 per 1000 shells
Packing cost	- ₹ 7.50 per one lakh shells
Labour hours	- 1,600 hours of which 500 hours will be overtime.
Labour rate	- ₹4 per hour with double the rate for overtime.
Overheads	- ₹ 16,300 per month
Selling and distribution expenses	- ₹ 16,300 per month

Since duplex board is in short supply, procurement is made on cash basis. Working capital to the extent of 50% of the sales value will be required.

The company expects a net return of 20% on the additional capital required for undertaking this order.

Prepare a cost estimate and indicate the price to be quoted to the customer. [6]

- (b) Country preserves produce jams, marmalade and preserves. All products are produced in a similar fashion — the fruits are low temperature cooked in vacuum process and then blended with glucose syrup with added citric acid and pectin to help setting.

Margins are tight and the firm operates a system of standard costing for each batch of jam.

The standard cost data for batch of raspberry jam are

Fruit extract	400 kg @ Re. 0.16 per kg
Glucose Syrup	700 kg @ Re. 0.10 per kg
Pectin	99 kg @ Re. 0.332 per kg
Citric acid	1kg @ ₹2.00 per kg
Labour	18 hrs @ ₹3.25 per hour

Standard processing loss 3%

The summer of 2013 proved disastrous for the raspberry crop with a late frost and cool, cloudy conditions at the ripening period, resulting in low national yield. As a consequence, normal prices in the trade were Re. 0.19 per kg. for fruit extracts although good buying could achieve some savings. The impact of exchange rates on imports of sugar has caused the price of syrup to increase by 20%

The actual results for the batch were:

Fruit Extracts	428 kg. @ ₹ 0.18 per kg
Glucose syrup	742 kg. @ ₹ 0.12 per kg
Pectin	125 kg @ ₹ 0.328 per kg
Citric acid	1 kg @ ₹ 0.95 per kg
Labour	20 hrs @ ₹3.00 per hour

Actual output was 1,164 kg raspberry jam.

You are required to:

- (a) Calculate the ingredients planning variances that are deemed uncontrollable
- (b) Calculate the ingredients operating variances that are deemed controllable.
- (c) Calculate the mixture and yield variances.
- (d) Calculate the total variance for batch.

[10]